



U.S. Department of Agriculture
Office of Inspector General
Audit Report

FARM SERVICE AGENCY
LIMITED CALIFORNIA COOPERATIVE
INSOLVENCY PAYMENT PROGRAM
TRI VALLEY GROWERS



Report No.
03099-4-SF
August 2002



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20250



DATE: August 26, 2002

REPLY TO
ATTN OF: 03099-4-SF

SUBJECT: Limited California Cooperative Insolvency Payment Program
Tri Valley Growers

TO: James R. Little
Administrator
Farm Service Agency

ATTN: T. Mike McCann
Director
Operations Review and Analysis Staff

This report presents the results of our audit of the subject program for crop year 2000. Your July 18, 2002, response to the draft report, excluding attachments, is included as Exhibit F of the report. Excerpts from your response have been incorporated into the relevant sections of the report. Since we received your response to our draft report, the State office provided us with new information on our allocation of contract production among one producer and three assignees (growers Nos. 85, 86, 87, and 88). After considering the information, we agreed to reallocate the production in the final report for these growers. (See Exhibit D and Finding No. 2.)

We have accepted your management decision for Recommendation No. 3. To achieve management decision on Recommendations Nos. 1 and 5, you will need to provide us with documentation that the subject growers were billed for the appropriate amounts and support that the amounts have been entered as receivables on FSA's accounting records. To achieve management decision on Recommendations Nos. 2 and 4, you will need to provide us with the notification instructing the State office to make payments to the subject growers for the appropriate amounts. To achieve management decision on Recommendation No. 6, you will need to provide us with instructions and timeframes for the State office to complete the corrective action.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned and the timeframes for implementation of those recommendations for which management decision has not yet been reached. Please note that the regulation requires a management decision to be reached on

all recommendations within a maximum of 6 months from report issuance. Follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the cooperation and assistance provided by your staff during our audit.

/s/

RICHARD D. LONG
Assistant Inspector General
for Audit

EXECUTIVE SUMMARY

FARM SERVICE AGENCY LIMITED CALIFORNIA COOPERATIVE INSOLVENCY PAYMENT PROGRAM TRI VALLEY GROWERS

REPORT NO. 03099-4-SF

RESULTS IN BRIEF

In July 2000, the California cooperative Tri Valley Growers (TVG) became insolvent, and its grower members suffered significant losses on tomatoes, pears, peaches, and apricots. Congress authorized the Farm Service Agency (FSA) to disburse up to \$20 million in payments to provide relief to growers through the Limited California Cooperative Insolvency Payment Program (the program).

The FSA National Office established timeframes for implementing the program, allowing the State office about 6 weeks to process over 400 applications with limited staff. To facilitate the payments and reduce the workload for the State office, the National Office had preprinted tonnage and income information on the growers' applications, which it obtained from TVG and other source(s). The growers were responsible to review and self-certify their applications. If this information was incorrect, the growers were instructed to revise the application and attest to its accuracy.

Of the four crops, we limited our review to peaches because more members grew peaches than any other crop. In May 2001, FSA disbursed \$6.6 million out of the \$20 million authorized by legislation to 248 peach growers. We performed the audit to determine if (1) growers were eligible for payments, (2) growers accurately reported tonnage and income on their applications, and (3) FSA correctly computed payments.

While we determined that the growers were eligible for payments, we found that 114 of 248 growers (46 percent) received incorrect payments due to either grower or FSA errors. This resulted in total monetary exceptions of \$357,617 (see Exhibit A). In completing their applications, 63 growers failed to report (1) sales of TVG contract

production sold by the California Canning Peach Association (CCPA), (2) indemnity payments received, and (3) payments received from CCPA for tree removals. In addition, some growers incorrectly changed the preprinted information on their applications.

When asked to explain the inaccuracies, the growers stated that they (1) assumed that the preprinted income in the "Payments Received from Other Sources" section of the application included all payments from CCPA, (2) assumed that the preprinted income in the "Payments Received from TVG" section of the application included income from CCPA, and (3) relied on other individuals (e.g., banker, bookkeeper, etc.) to review their applications for them.

These explanations did not relieve the growers from their responsibility of ensuring that the information on their applications was accurate. The growers should have more adequately compared their receipts and other documentation to the preprinted application, thereby providing the most accurate information to the State office. Since the State office processed the applications based on the growers' self-certification, 60 growers were overpaid \$283,376 and 3 were underpaid \$19,461.

For the FSA errors, we found that the State office incorrectly calculated payments for 51 growers by (1) not accurately adjusting excess tonnage when calculating the growers' losses, and (2) using incorrect income information. Officials stated they had insufficient time to process the number of applications, considering regulatory deadlines and changes to eligibility criteria. As a result, 15 growers were overpaid \$21,022 and 36 growers were underpaid \$33,758.

When growers produced tonnage in excess of their contracts, TVG purchased the excess through a separate contract and at a higher rate than it paid for the original contract tonnage. Since the excess payment was not part of the program, the State office was instructed to reduce the growers' total payments by that amount. We found that the State office incorrectly adjusted excess tonnage when calculating the losses for 46 growers. Officials were unable to provide an explanation but agreed with our conclusions.

On August 9, 2001, we held a teleconference with FSA National Office officials to inform them of the large number of growers who had received incorrect payments. We also provided spreadsheets detailing our preliminary results so that the agency could take immediate action to review payments on the remaining three crops.

In addition, the issues we identified in this report affected other programs, resulting in excess payments to the growers. Some growers failed to report their total peach production to the Risk Management Agency (RMA) when they applied for crop insurance; one FSA county office failed to consider TVG production when calculating disaster assistance payments. Because the payments issued under these programs were unrelated to the TVG insolvency, we will issue separate reports to both RMA and FSA.

KEY RECOMMENDATIONS

We recommend that FSA recover overpayments of \$283,376 plus interest from the 60 growers, and disburse \$53,219 to the 39 growers that were underpaid. FSA should also make a determination on whether the \$21,022 should be collected from the 15 growers who were overpaid due to FSA errors.

We also recommend that the State office review payments on the remaining three crops—tomatoes, apricots, and pears—to determine if improper or incorrect payments were made to those growers, and report the results to the FSA National Office and OIG.

AGENCY RESPONSE

In its July 18, 2002, written response to the draft report, the FSA National Office concurred with the report findings and recommendations. FSA's response is included in Exhibit F of this report.

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INTRODUCTION

BACKGROUND

In July 2000, the California cooperative Tri Valley Growers (TVG) became insolvent, and its grower members suffered significant losses on tomatoes, pears, peaches, and apricots. To provide relief for the growers, the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2001, authorized the Secretary of Agriculture to disburse up to \$20 million in payments through the Limited California Cooperative Insolvency Payment Program (the program). While the Commodity Credit Corporation administered the program, the Farm Service Agency (FSA) National and State offices determined grower eligibility and disbursed payments. Payments could not, under the terms of the legislation, exceed 50 percent of the growers' loss.

TVG at its peak had approximately 500 members who produced more than 50 percent of the canned peaches and 10 percent of the canned tomato products sold in the United States. The cooperative's attempts to return to profitability were hindered by unfavorable long-term contracts, an industry-wide oversupply of tomatoes, and processing plants running under capacity.

Because of the insolvency, TVG was unable to fulfill its contracts with its grower members in crop year 2000. Growers received only 60 to 70 percent of the market price on all their crops. In addition, TVG closed two of its tomato-processing plants and processed a reduced amount of its members' fruit crops except for peaches.

On March 15, 2001, the FSA National Office mailed program applications to all members of TVG who had a contract to produce an eligible commodity during crop year 2000. The application included preprinted tonnage and income information obtained from TVG and CCPA. Growers were instructed to verify the preprinted information and return the applications to the California State FSA Office by April 6, 2001. The State office was responsible for verifying the information and calculating a payment factor (31.06515 percent) to allocate the limited funds among the growers. FSA then disbursed payments based on the losses reported on individual applications.

OBJECTIVES

The objectives of our audit were to determine if (1) growers were eligible for payments, (2) growers accurately reported tonnage and income on their applications, and (3) FSA correctly computed payments.

SCOPE

Over 400 TVG growers received program payments for losses in crop year 2000. Of the four crops covered by the program—tomatoes, pears, peaches, and apricots—we limited our review to peaches because more members grew peaches than any other crop. FSA disbursed \$6.6 million out of the \$20 million authorized by legislation to 248 peach growers.

For crop year 2000, the U.S. Department of Agriculture also offered other programs for crop losses. Accordingly, we reviewed indemnity payments and crop disaster payments to ensure that TVG growers had not been overpaid for their losses.

Audit fieldwork was performed from May through October 2001 at the California State FSA Office in Davis, California; TVG corporate office in San Ramon, California; the California Canning Peach Association (CCPA) in Sacramento, California; and several FSA county offices. For a complete list of audit sites, refer to Exhibit B.

This audit was performed in accordance with generally accepted government auditing standards.

METHODOLOGY

To accomplish our objectives, we performed the following procedures:

- We interviewed officials at the FSA National Office to obtain application instructions, internal memoranda, pertinent regulations, and instructions given to the California State FSA Office to implement the program.
- At the California State FSA Office, we interviewed officials about the TVG contract types, review procedures, FSA's role in the application process, extent of grower losses on all four crops, and whether officials were aware of any abuses or program vulnerabilities in the program. We obtained FSA spreadsheets to identify all eligible growers receiving applications, which summarized their income and resulting losses.

- We analyzed FSA's data and prepared spreadsheets to document income not reported by growers. We recalculated the "Payments Received from TVG" to ensure that the State office limited the amount of payments to the contract tonnage.
- At the TVG corporate office, we interviewed officials to identify concerns they had regarding the contract payments and reviewed member contracts to ensure the contracts with TVG were valid. We verified that all applicants identified as members on the FSA spreadsheets were present on TVG member spreadsheets.
- At CCPA, we interviewed officials to identify payments that growers received from CCPA and collected documentation on tree removals and peach sales. We verified that payments originating from TVG membership orchards were reported under "Payments Received from Other Sources" on the application.
- At the State and county FSA offices, we interviewed 47 of 248 growers concerning discrepancies we noted on their applications.
- At the Sutter/Yuba County FSA Office in Yuba City, we reviewed files and interviewed officials to determine if the growers were eligible to receive Crop Disaster Program payments.
- To determine if the growers received payments for the same losses from different sources, we analyzed (1) a data base of all growers who received indemnity payments for crop year 2000 from the Risk Management Agency (RMA) and (2) crop insurance payments from three insurance providers.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1	GROWERS FAILED TO REPORT ALL PRODUCTION AND RELATED INCOME
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FINDING NO. 1

Sixty-three of the 248 TVG peach growers who participated in this program failed to report production and related income on their program applications. Specifically, growers

failed to report (1) sales of TVG contract production sold by California Canning Peach Association (CCPA), (2) indemnity payments received, and (3) payments received from CCPA for tree removals. In addition, some growers incorrectly changed the information preprinted on their applications. The growers were generally unable to provide us with satisfactory reasons for inaccurately reporting production and income. As a result, 60 growers were overpaid \$283,376 and 3 growers were underpaid \$19,461 (see Exhibit C). This represents an error rate of 25 percent.

Regulations¹ require that “the members of TVG requesting payments under this part must certify with respect to the accuracy and truthfulness of the information provided in their application for payments.” Application instructions² state “Payment Received from Other Sources’ means the payment [the grower] received from other sources for the production [the grower] had under contract with TVG during crop year 2000...”

To facilitate the payments and reduce the workload for the State office, the National Office had preprinted tonnage and income information on the growers’ applications (see Exhibit E), which it obtained from TVG and CCPA. The growers were responsible to review and self-certify their applications. If this information was incorrect, the growers were instructed to revise the application and attest to its accuracy.

We found that 63 of the 248 growers failed to correctly report production and income on their applications. When asked to explain the inaccuracies, the growers stated that they (1) assumed that the preprinted income in the “Payments Received from Other Sources” section of the application included total payments from CCPA, (2) assumed that the

¹ 7 CFR 1481.4 (c) dated March 8, 2001.

² Instructions for CCC-870, Limited California Cooperative Insolvency Payment Program, dated March 13, 2001.

preprinted income in the “Payments Received from TVG” section of the application included income from CCPA, and (3) relied on other individuals (e.g., banker, bookkeeper, etc.) to review their applications for them.

These explanations did not relieve the growers from their responsibility of ensuring that the information on their applications was accurate. The growers should have more adequately compared their receipts and other documentation to the preprinted information, thereby providing the most accurate information to the State office. Because the growers self-certified the information was correct, the State office relied on that information without verifying its accuracy.

We found that some growers did not ensure the information on their applications was accurate:

- Growers Failed to Report Sales of Contract Production as “Payments Received from Other Sources.” Due to the TVG bankruptcy, CCPA verbally agreed to purchase a limited amount of TVG contract production from its members. This production was later sold to other processors, and the growers received direct payments from CCPA. We found 40 growers who failed to report sales of contract production. For 26 of these growers, the sales amounted to \$399,992, which resulted in overpayments of \$124,257. The remaining 14 growers had multiple errors on their applications and are discussed in the last section of this finding.
- Growers Failed to Report Indemnity Payments as “Payments Received from Other Sources.” We obtained an RMA data base of all growers who received indemnity payments for crop year 2000 and found 16 growers who failed to report the payments. For seven of these growers, the payments amounted to \$50,231, which resulted in overpayments of \$15,603. The remaining nine growers had multiple errors on their applications and are discussed in the last section of this finding.
- Growers Failed to Report Tree Removal Payments as “Payments Received from Other Sources.” CCPA created a tree removal program in response to TVG’s announcement that it would not process 30,000 tons of peaches it had contracted to receive. Rather than have these peaches produce an oversupply on the market, CCPA members voted to remove, or pull, the trees.

The FSA National Office preprinted tree removal payments under the “Payments Received From Other Sources” section on the application; however, CCPA erroneously left out three of the

payments during the transfer of information to FSA. Two growers did not notice the omission and failed to report \$44,800, which resulted in overpayments of \$13,916. The remaining grower had multiple errors on his application and is discussed in the last section of this finding.

- Growers Incorrectly Changed the Preprinted Information on Their Applications. We found that 16 growers incorrectly changed the preprinted income on their applications. As a result, eight growers were overpaid \$11,797 and three growers were underpaid by \$19,461. The remaining five growers had multiple errors on their applications and are discussed in the last section of this finding.

In a memo dated March 28, 2001, the FSA National Office Acting Administrator instructed the State office to "...review and verify the corrections members of TVG made to the preprinted information." The State office informed us that it contacted all growers who made such corrections. The growers stated that they changed the preprinted income to coincide with the payments they received from TVG or other sources. The State office accepted their explanations without further questioning or without obtaining supporting documentation.

After we interviewed the growers, we determined that these changes were incorrect. For example, grower No. 37 reported the net payment he received from TVG. Although instructions state that the grower should report 'Payment Received from TVG,' this was further described in the instructions as payment for delivered production, which is a gross amount. Therefore, hauling allowances, member dues, and other fees were included in the computation of the grower's loss. As a result, the grower received an overpayment of \$2,033.

In another case, grower No. 39 overreported payments received from TVG. The grower stated he did not know how he arrived at the figure but believed he may have included income from crop year 1999. As a result, the grower was underpaid \$75.

- Some Applications Contained Multiple Errors. The applications for 17 growers contained multiple errors (discussed in the previous sections) and they received \$117,803 in overpayments. For example, grower No. 52 failed to report payments received from sales of contract production and indemnity payments. As a result, the grower was overpaid \$15,264.

Because of the discrepancies identified above, we concluded that 60 growers were overpaid and 3 growers were underpaid. We recommend that FSA recover grower overpayments of \$283,376 plus interest since the date of the disbursement and pay \$19,461 to growers that were underpaid.

Some of these errors could have been identified more timely through FSA's spot check process. Regulations³ state "all information provided is subject to a spot check and other verification by FSA." As a practice, the FSA National Office provides instructions on spot check procedures to the State office for new programs through handbook procedures, amendments to the handbook, or notices. Although the National Office sent a memorandum to the State office on processing program applications, the memorandum did not include instructions on spot checks.

State office officials inquired about the missing instructions but were told by the National Office to postpone the spot checks because OIG was conducting an audit. However, since the FSA handbook⁴ states, "OIG functions do not replace FSA-established lines of managerial or operational authority or responsibility," FSA should have conducted its spot checks of the applications.

On August 9, 2001, we held a teleconference with FSA National Office officials to inform them of the large number of growers who had received incorrect payments. We also provided spreadsheets detailing our preliminary results so that the agency could take immediate action to review payments on the remaining three crops—tomatoes, apricots, and pears.

RECOMMENDATION NO. 1

Instruct the State office to collect \$283,376 plus interest since the date of the disbursement from the 60 growers who were overpaid.

Agency Response

In its July 18, 2002, written response to the draft report, FSA concurred with this finding and recommendation.

³ 7 CFR 1481, section 4(c), dated March 13, 2001.

⁴ Handbook 9-AO (rev. 4), amendment 1, par. 4A, dated January 13, 2000.

OIG Position

We agree with FSA's corrective action. To achieve management decision, the agency will need to provide us with documentation that the 60 growers were billed for their overpayments plus interest and support that the amounts have been entered as receivables on FSA's accounting records. If final action has occurred, evidence of collection will suffice.

RECOMMENDATION NO. 2

Instruct the State office to pay \$19,461 to the three growers who were underpaid.

Agency Response

In its July 18, 2002, written response to the draft report, FSA concurred with this finding and recommendation.

OIG Position

We agree with FSA's corrective action. To achieve management decision, the agency will need to provide us with a copy of the instructions to the State office to pay \$19,461 to the three growers.

RECOMMENDATION NO. 3

Require the State office to review payments on the remaining three crops—tomatoes, apricots, and pears—to determine if improper or incorrect payments were made to those growers, and report the results to the FSA National Office and OIG.

Agency Response

In its July 18, 2002, written response to the draft report, FSA concurred with this finding and recommendation. FSA stated that as a result of spot checks on payments to 10 percent of the TVG tomato growers, the State office collected \$28,483 in overpayments plus interest and found that one grower was underpaid \$12,222. Also, FSA officials stated that they are in the process of reviewing the TVG apricot and pear growers and anticipate reporting the results of this review to OIG by November 22, 2002.

OIG Position

We accept FSA's management decision on this recommendation.

FINDING NO. 2

The State office incorrectly calculated program payments for 51 of 248 growers by (1) not accurately adjusting excess tonnage when calculating the growers' losses, and (2) using incorrect income information. Officials stated they had insufficient time to process the number of applications, considering regulatory deadlines and changes to eligibility criteria. As a result, 15 growers were overpaid \$21,022 and 36 growers were underpaid \$33,758 (see Exhibit D). This represents an error rate of 21 percent.

The FSA National Office established timeframes for implementing the program, allowing the State office about 6 weeks to process over 400 applications with limited staff. We found the State office incorrectly calculated payments for 51 of 248 growers. Although officials informed us that they conducted a second-party review of the applications, they failed to discover the following errors:

- State Office Incorrectly Adjusted Excess Tonnage when Calculating the Growers' Losses. When growers produced tonnage in excess of their contracts, TVG purchased the excess through a separate contract and at a higher rate than it paid for the original contract tonnage. Since the excess payment was not part of the program, the State office was instructed to reduce the growers' total payments by the excess amount.

We found that the State office failed to correctly adjust the total payment for 46 of 49 growers who produced excess tonnage. Officials were unable to provide an explanation but agreed with our conclusions. As a result, 34 growers were underpaid \$23,846 and 12 growers were overpaid \$14,113.

- The State Office Used Incorrect Income Information. Some growers changed their applications to report assignments⁵ or correct what they believed to be inaccurate information. Although State office officials informed us that they verified these changes, in five cases they misinterpreted what the grower intended or disregarded it altogether. When we verified the information through discussions

⁵ An assignment is an agreement in which a grower transfers the right of all or part of a crop to another grower as payment for labor. Ownership is divided between growers, and payments are distributed to growers based on the percentage of ownership.

with the grower and other evidence, we found the State office incorrectly calculated the income. As a result, we found that two growers were underpaid \$9,912 and three growers were overpaid \$6,909.

The State office officials stated they had insufficient time to process the applications considering regulatory deadlines and changes to the eligibility criteria. Since their second-party review failed to discover the errors mentioned above, the State office should strengthen its second-party review process on any future programs by requiring a checklist of items to verify that a review was conducted.

On August 9, 2001, we informed the FSA National Office of the large number of growers who had received incorrect payments. In accordance with the provisions of the finality rule,⁶ the California State FSA Office sent letters on August 14 notifying over 400 growers of discrepancies found in selected applications and the possibility of incorrect payments. The growers were told that a further review of the applications would continue and determinations would be made on a case-by-case basis. However, FSA will have to determine whether the 90-day rule is applicable and what action should be taken on the \$21,022 in overpayments to the 15 growers

FSA should disburse payments of \$33,758 to the 36 growers that were underpaid. FSA should also make a determination on whether the \$21,022 should be collected from the 15 growers who were overpaid.

RECOMMENDATION NO. 4

Instruct the State office to pay \$33,758 to the 36 growers who were underpaid.

Agency Response

In its July 18, 2002, written response to the draft report, FSA concurred with this finding and recommendation. (Based on subsequent information received from the State office concerning growers Nos. 85, 86, 87, and 88, OIG decreased the number of growers from 38 to 36.)

⁶ The Department of Agriculture Reorganization Act of 1994, Section 281, states that the decisions made by the State office "...in good faith...shall be final not later than 90 calendar days after the date of filing of the application for benefits, [and]...no action may be taken...to recover amounts [disbursed in error]..."

OIG Position

We agree with FSA's corrective action. To achieve management decision, the agency needs to provide us with a copy of its instruction to the State office to pay \$33,758 to the 36 growers.

RECOMMENDATION NO. 5

Instruct the State office to make a determination whether the 90-day rule applies and, if so, to collect \$21,022 plus interest since the date of disbursement from the 15 growers who were overpaid.

Agency Response

In its July 18, 2002, written response to the draft report, FSA concurred with this finding and recommendation, but noted, "...because it is unclear that these 13 TVG peach growers had reason to know that their payments were erroneous, FSA is waiving program interest." (Based on subsequent information received from the State office concerning growers Nos. 85, 86, 87, and 88, OIG increased the number of growers from 13 to 15.)

OIG Position

We generally agree with FSA's corrective action. To achieve management decision, the agency will need to provide us with documentation that the 15 growers were billed for their overpayments and support that the amounts have been entered as receivables on FSA's accounting records. If final action has occurred, evidence of collection will suffice.

RECOMMENDATION NO. 6

Require the State office to strengthen its second-party review process on any future programs by requiring a checklist of items to verify that a review was conducted.

Agency Response

In its July 18, 2002, written response to the draft report, FSA concurred with this finding and recommendation.

OIG Position

We agree with FSA's corrective action. To achieve management decision, the agency needs to provide us with instructions and a timeframe for the State office to complete the corrective action.

EXHIBIT A – SUMMARY OF MONETARY RESULTS

RECOMMENDATION NUMBER	DESCRIPTION	AMOUNT ¹	CATEGORY
1	For 2000, growers failed to report income received from other sources on production.	\$283,376	Questioned Costs – Recovery Recommended
5	The State office incorrectly adjusted excess tonnage when calculating the growers' losses and used incorrect income information.	\$21,022	Questioned Costs – Recovery Recommended
TOTAL OVERPAYMENTS		\$304,398	
2	For 2000, growers overreported income received from other sources on production.	\$19,461	Underpayment – Payment Recommended
4	The State office incorrectly adjusted excess tonnage when calculating the growers' losses and used incorrect income information.	\$33,758	Underpayment – Payment Recommended
TOTAL UNDERPAYMENTS		\$53,219	
TOTAL MONETARY RESULTS		\$357,617	

¹ Each over/underpayment is rounded to the nearest dollar.

EXHIBIT B – ORGANIZATIONS VISITED OR CONTACTED

ORGANIZATION	LOCATION
FSA Offices California State Office Stanislaus/Tuolumne County Office Sutter/Yuba County Office	Davis, CA Modesto, CA Yuba City, CA
RMA Office Western Regional Compliance Office	Davis, CA
Grower Cooperative Tri Valley Growers Corporate Office	San Ramon, CA
Grower Association California Canning Peach Association	Sacramento, CA
Reinsurance Company Offices Rural Community Insurance Services Rain and Hail LLC Insurance Service, Inc. NAU Country Insurance Company	Fresno, CA Fresno, CA Woodland, CA

EXHIBIT C – GROWER PAYMENTS REPORTED INCORRECTLY

Grower No.	Payments Rec'd From TVG Per FSA	Payments Rec'd From TVG Per OIG	Payments Rec'd From Other Sources Per FSA	Payments Rec'd From Other Sources Per OIG	Final Payment From FSA	Final Payment Per OIG	Over (Under) Payment to Grower	Error Code
A	B	C	D	E	F	G	H = F - G	I
26 Growers Failed to Report Sales of Contract Production								
1	\$478,535	\$478,535	\$64,820	\$77,313	\$110,527	\$106,646	\$3,881	1
2	\$269,368	\$269,368	\$49,188	\$142,357	\$190,567	\$161,624	\$28,943	1
3	\$149,602	\$149,602	\$0	\$11,549	\$26,414	\$22,826	\$3,588	1
4	\$123,279	\$123,279	\$0	\$20,873	\$27,281	\$20,797	\$6,484	1
5	\$26,174	\$26,174	\$0	\$18,458	\$22,559	\$16,825	\$5,734	1
6	\$6,586	\$6,586	\$25,120	\$36,950	\$26,341	\$22,666	\$3,675	1
7	\$82,365	\$82,365	\$0	\$6,727	\$9,229	\$7,139	\$2,090	1
8	\$56,777	\$56,777	\$0	\$3,890	\$15,658	\$14,449	\$1,209	1
9	\$113,409	\$113,409	\$86,307	\$89,764	\$57,822	\$56,748	\$1,074	1
10	\$79,948	\$79,948	\$0	\$30,144	\$20,765	\$11,400	\$9,365	1
11	\$44,902	\$44,902	\$0	\$11,654	\$31,796	\$28,176	\$3,620	1
12	\$99,712	\$99,712	\$0	\$30,980	\$46,531	\$36,907	\$9,624	1
13	\$204,236	\$204,236	\$14,400	\$17,614	\$35,480	\$34,482	\$998	1
14	\$60,569	\$60,569	\$0	\$3,005	\$12,272	\$11,339	\$933	1
15	\$181,707	\$181,707	\$0	\$9,015	\$36,816	\$34,016	\$2,800	1
16	\$24,241	\$24,241	\$0	\$19,815	\$35,754	\$29,598	\$6,156	1
17	\$139,557	\$139,557	\$0	\$19,411	\$20,777	\$14,747	\$6,030	1
18	\$184,499	\$184,499	\$0	\$19,805	\$69,426	\$63,273	\$6,153	1
19	\$35,821	\$35,821	\$0	\$4,198	\$20,141	\$18,837	\$1,304	1
20	\$16,548	\$16,548	\$0	\$5,470	\$5,210	\$3,511	\$1,699	1
21	\$10,443	\$10,443	\$0	\$2,366	\$9,857	\$9,122	\$735	1
22	\$31,163	\$31,163	\$0	\$12,744	\$9,812	\$5,853	\$3,959	1
23	\$14,345	\$14,345	\$0	\$2,484	\$1,768	\$997	\$771	1
24	\$64,380	\$64,380	\$0	\$9,601	\$52,961	\$49,979	\$2,982	1
25	\$47,799	\$47,799	\$41,600	\$54,866	\$54,671	\$50,550	\$4,121	1
26	\$206,668	\$206,668	\$0	\$20,374	\$32,211	\$25,882	\$6,329	1
Subtotal							\$124,257	

Grower No.	Payments Rec'd From TVG Per FSA	Payments Rec'd From TVG Per OIG	Payments Rec'd From Other Sources Per FSA	Payments Rec'd From Other Sources Per OIG	Final Payment From FSA	Final Payment Per OIG	Over (Under) Payment to Grower	Error Code
A	B	C	D	E	F	G	H = F - G	I
7 Growers Failed to Report Indemnity Payments								
27	\$58,929	\$58,929	\$0	\$3,077	\$103,929	\$102,974	\$955	5
28	\$10,093	\$10,093	\$16,577	\$18,209	\$6,191	\$5,684	\$507	5
29	\$31,105	\$31,105	\$0	\$8,687	\$15,671	\$12,972	\$2,699	5
30	\$210,309	\$210,309	\$0	\$22,950	\$63,579	\$56,450	\$7,129	5
31	\$10,982	\$10,982	\$0	\$4,263	\$10,920	\$9,596	\$1,324	5
32	\$5,733	\$5,733	\$0	\$1,241	\$4,444	\$4,058	\$386	5
33	\$14,111	\$14,111	\$0	\$8,381	\$8,645	\$6,042	\$2,603	5
Subtotal							\$15,603	
2 Growers Failed to Report Tree Removal Payments								
34	\$4,449	\$4,449	\$0	\$5,600	\$4,640	\$2,901	\$1,739	2
35	\$18,737	\$18,737	\$0	\$39,200	\$69,746	\$57,569	\$12,177	2
Subtotal							\$13,916	
11 Growers Incorrectly Changed the Preprinted Information on the Application								
36	\$111,307	\$111,307	\$196,152	\$134,471	\$5,387	\$24,549	(\$19,162)	3
37	\$80,631	\$87,174	\$17,600	\$17,600	\$31,588	\$29,555	\$2,033	3
38	\$129,597	\$142,200	\$65,043	\$64,625	\$26,393	\$22,608	\$3,785	3
39	\$23,510	\$23,270	\$0	\$0	\$10,231	\$10,306	(\$75)	3
40	\$70,531	\$69,811	\$0	\$0	\$30,693	\$30,917	(\$224)	3
41	\$336,207	\$336,207	\$70,559	\$70,965	\$62,482	\$62,356	\$126	3
42	\$43,351	\$43,351	\$15,380	\$16,342	\$19,900	\$19,601	\$299	3
43	\$58,655	\$62,525	\$0	\$0	\$5,513	\$4,311	\$1,202	3
44	\$2,218	\$2,218	\$10,523	\$13,784	\$1,525	\$512	\$1,013	3
45	\$6,655	\$6,655	\$31,568	\$41,353	\$4,575	\$1,535	\$3,040	3
46	\$0	\$0	\$14,796	\$15,760	\$11,400	\$11,101	\$299	3
Subtotal							(\$7,664)	

Grower No.	Payments Rec'd From TVG Per FSA	Payments Rec'd From TVG Per OIG	Payments Rec'd From Other Sources Per FSA	Payments Rec'd From Other Sources Per OIG	Final Payment From FSA	Final Payment Per OIG	Over (Under) Payment to Grower	Error Code
A	B	C	D	E	F	G	H = F - G	I
17 Applications Contained Multiple Errors								
47 ¹	\$8,448	\$8,448	\$0	\$10,934	\$18,294	\$14,897	\$3,397	1,5
47 ¹	\$7,089	\$7,089	\$0	\$11,474	\$12,274	\$8,710	\$3,564	1,5
48	\$146,043	\$146,043	\$0	\$7,996	\$32,804	\$30,320	\$2,484	1,5
49	\$50,798	\$50,798	\$0	\$8,651	\$8,974	\$6,287	\$2,687	1,5
50	\$32,441	\$35,226	\$0	\$14,846	\$12,361	\$6,883	\$5,478	1,3
51	\$42,174	\$42,174	\$10,400	\$45,590	\$44,613	\$33,681	\$10,932	1,5
52	\$195,403	\$195,403	\$0	\$49,133	\$55,109	\$39,845	\$15,264	1,5
53	\$2,627	\$632	\$3,840	\$7,604	\$1,379	\$829	\$550	1,4
54	\$10,507	\$2,528	\$15,360	\$30,417	\$5,514	\$3,315	\$2,199	1,4
55	\$82,744	\$82,744	\$0	\$2,992	\$54,277	\$53,348	\$929	1,5
56	\$27,053	\$26,986	\$7,200	\$7,608	\$3,836	\$3,730	\$106	4,5
57	\$75,404	\$75,404	\$0	\$17,472	\$22,176	\$16,748	\$5,428	1,5
58	\$383,792	\$414,157	\$0	\$94,752	\$155,246	\$116,378	\$38,868	1,2,3
59	\$16,300	\$17,521	\$7,124	\$8,820	\$5,173	\$4,267	\$906	1,4
60	\$28,904	\$31,398	\$21,371	\$39,554	\$12,036	\$5,612	\$6,424	1,4,5
61	\$707,412	\$722,514	\$625	\$35,461	\$237,355	\$221,842	\$15,513	1,3
62	\$7,258	\$7,701	\$384	\$1,920	\$3,301	\$2,686	\$615	3,4
63	\$29,031	\$30,804	\$1,536	\$7,680	\$13,203	\$10,744	\$2,459	3,4
Subtotal							\$117,803	
Total Underpayments							(\$19,461)	
Total Overpayments							\$283,376	
Net Overpayments²							\$263,915	

ERROR DESCRIPTION

1. Grower failed to report sales of contract production.
2. Grower failed to report tree removal payments.
3. Grower incorrectly changed the preprinted information on the application.
4. The State office used incorrect income information.
5. Grower failed to report indemnity payments.

¹ Grower No. 47 had two contracts, which were reported under different grower numbers.

² The figures obtained from FSA were rounded to the nearest whole number in columns B through H.

EXHIBIT D – FSA MADE ERRORS WHEN CALCULATING PAYMENTS

Grower No.	Payments Rec'd From TVG Per FSA	Payments Rec'd From TVG Per OIG	Final Payment From FSA	Final Payment Per OIG	Over(Under) Payment to Grower	Error Code
A	B	C	D	E	F	G
The State Office Incorrectly Adjusted Excess Tonnage when Calculating Losses for 46 Growers						
64	\$115,472	\$113,590	\$12,118	\$12,702	(\$584)	6
65	\$31,047	\$29,160	\$2,660	\$3,246	(\$586)	6
66	\$343,856	\$343,124	\$62,916	\$63,143	(\$227)	6
67	\$246,735	\$242,690	\$31,924	\$33,181	(\$1,257)	6
68	\$95,189	\$95,053	\$12,483	\$12,525	(\$42)	6
69	\$19,497	\$19,469	\$2,557	\$2,565	(\$8)	6
70	\$61,160	\$56,838	\$5,755	\$7,098	(\$1,343)	6
71	\$14,276	\$15,456	\$1,138	\$772	\$366	6
72	\$10,239	\$10,121	\$540	\$576	(\$36)	6
73	\$40,955	\$40,482	\$2,159	\$2,306	(\$147)	6
74	\$25,275	\$25,718	\$2,875	\$2,738	\$137	6
75	\$101,101	\$102,872	\$11,501	\$10,951	\$550	6
76	\$4,247	\$4,678	\$237	\$103	\$134	6
77	\$39,357	\$30,400	\$513	\$3,295	(\$2,782)	6
78	\$11,051	\$10,471	\$1,011	\$1,191	(\$180)	6
79	\$44,203	\$41,884	\$4,045	\$4,766	(\$721)	6
80	\$81,160	\$80,957	\$11,507	\$11,570	(\$63)	6
81	\$46,238	\$45,582	\$5,758	\$5,962	(\$204)	6
82	\$136,515	\$136,358	\$20,419	\$20,468	(\$49)	6
83	\$65,726	\$58,723	\$6,291	\$8,466	(\$2,175)	6
84	\$14,864	\$14,257	\$2,186	\$2,375	(\$189)	6
85	\$157,853	\$150,659	\$20,281	\$16,468	\$3,813	6
86	\$14,422	\$13,765	\$1,591	\$1,281	\$309	6
87	\$1,973	\$1,883	\$333	\$297	\$36	6
88	\$9,822	\$9,375	\$885	\$628	\$257	6
89	\$311,195	\$329,091	\$41,431	\$35,872	\$5,559	6
90	\$35,681	\$39,913	\$2,668	\$1,354	\$1,314	6
91	\$243,222	\$242,900	\$33,595	\$33,695	(\$100)	6
92	\$16,789	\$14,115	\$1,661	\$2,492	(\$831)	6
93	\$12,076	\$12,774	\$582	\$365	\$217	6
94	\$13,776	\$13,457	\$2,814	\$1,393	\$1,421	6
95	\$71,870	\$68,812	\$10,245	\$11,195	(\$950)	6

Grower No.	Payments Rec'd From TVG Per FSA	Payments Rec'd From TVG Per OIG	Final Payment From FSA	Final Payment Per OIG	Over(Under) Payment to Grower	Error Code
A	B	C	D	E	F	G
96	\$308,165	\$297,023	\$21,961	\$25,422	(\$3,461)	6
97	\$62,087	\$58,013	\$6,481	\$7,746	(\$1,265)	6
98	\$164,139	\$164,051	\$21,392	\$21,419	(\$27)	6
99	\$181,180	\$175,385	\$18,197	\$19,997	(\$1,800)	6
100	\$125,881	\$124,934	\$15,719	\$16,013	(\$294)	6
101	\$39,351	\$38,102	\$5,437	\$5,825	(\$388)	6
102	\$24,607	\$23,759	\$2,489	\$2,753	(\$264)	6
103	\$7,401	\$7,086	\$958	\$1,056	(\$98)	6
104	\$33,145	\$28,159	\$3,601	\$5,150	(\$1,549)	6
105	\$100,922	\$96,299	\$9,882	\$11,318	(\$1,436)	6
106	\$32,811	\$31,549	\$4,283	\$4,675	(\$392)	6
107	\$250,638	\$249,971	\$30,712	\$30,919	(\$207)	6
108	\$97,931	\$97,768	\$13,007	\$13,057	(\$50)	6
109	\$31,944	\$31,490	\$4,585	\$4,726	(\$141)	6
Subtotal					(\$9,733)	
The State Office Used Incorrect Income Information on 5 Growers						
110	\$47,902	\$47,902	\$0	\$9,729	(\$9,729)	4
111	\$0	\$0	\$10,090	\$4,125	\$5,965	4
112	\$9,868	\$9,868	\$5,212	\$5,023	\$189	4
113	\$39,474	\$39,474	\$20,848	\$20,093	\$755	4
114	\$21,751	\$21,165	\$2,938	\$3,121	(\$183)	4
Subtotal					(\$3,003)	
Underpayments					(\$33,758)	
Overpayments					\$21,022	
Net Underpayments¹					(\$12,736)	

ERROR DESCRIPTION

4. The State office used incorrect income information.
6. The State office incorrectly adjusted excess tonnage when calculating growers' losses.

¹ The figures obtained from FSA were rounded to the nearest whole number in columns B through F.

EXHIBIT E – GROWER APPLICATION

CCC-870 (03-13-01)	U.S. DEPARTMENT OF AGRICULTURE Commodity Credit Corporation LIMITED CALIFORNIA COOPERATIVE INSOLVENCY PAYMENT PROGRAM	FOR FSA OFFICE USE ONLY DEADLINE FOR RECEIPT OF APPLICATION (Month, Day, Year) April 6, 2001				
NOTE: The authority for collecting the following information is Pub. L. 106-387. This authority allows for the collection of information without prior OMB approval mandated by the Paperwork Reduction Act of 1995.						
PART A - GENERAL INFORMATION						
1. MEMBER'S NAME AND ADDRESS (Including ZIP Code) Grower no. 58	2. MEMBER'S TELEPHONE NUMBER ()					
3. TRI VALLEY GROWERS MEMBER NUMBER						
4. FINANCIAL INSTITUTION'S INFORMATION FOR AUTOMATED CLEARINGHOUSE DIRECT DEPOSIT (Not Wire Transfer)						
A. NAME OF FINANCIAL INSTITUTION	B. FINANCIAL INSTITUTION'S ROUTING NUMBER (9 Digit Number)					
C. DIRECT DEPOSIT ACCOUNT NUMBER	D. TYPE OF ACCOUNT (Check one below) <input type="checkbox"/> Checking (Personal) <input type="checkbox"/> Checking (Corporate) <input type="checkbox"/> Savings (Personal) <input type="checkbox"/> Savings (Corporate)					
PART B - ELIGIBILITY DETERMINATIONS						
Please check the "YES" or "NO" boxes for Items 5 and 6 below:						
5. Did you have a contract with Tri Valley Growers (TVG) to produce an eligible commodity during the 2000 crop year?	YES	NO				
6. Do you understand that FSA will perform random spot checks and request documentation for your production?	X	X				
PART C - PRODUCTION						
7. Information provided to FSA regarding your 2000 crop year contract with Tri Valley Growers is preprinted. Please verify the information in items 7B, 7E, and 7F and make changes, if necessary on the provided correction line. Please explain the difference in the Item 11, Remarks Section on the reverse side of this application form. NOTE: Information in Item F, for Peach Member-growers was obtained from the California Ganning Peach Association. If this form was downloaded from the internet, please read Part F.						
A. Eligible Commodities (Crop Year 2000)	B. Contract Production (Tons)	C. Final Base Price Per Ton	D. Amount Expected From TVG (Item B times Item C)	E. Payments Received From TVG	F. Payments Received From Other Sources	G. Total Loss Suffered (Item D minus Item E and Item F)
APRICOTS	X	\$ = \$	\$	\$	\$	\$
APRICOTS CORRECTION	X		\$	\$	\$	\$
YC PEACHES	3,792 X	\$ 233.00 = \$	\$ 883,536.00	\$ 414,157.14	\$	\$ 469,378.86
YC PEACHES CORRECTION	2424.2084 X		\$591,653.09	\$ 282,791.45	—	\$ 207,861.47
PEARS	X	\$ = \$	\$	\$	\$	\$
PEARS CORRECTION	X		\$	\$	\$	\$
TOMATOES	X	\$ = \$	\$	\$	\$	\$
TOMATOES CORRECTION	X		\$	\$	\$	\$
PART D - MEMBER'S CERTIFICATION						
I certify that all the information entered on this application is true and correct and I have submitted the accurate amounts per my contracts with Tri Valley Growers for the 2000 crop year. If necessary, you may be required to provide any information to determine program eligibility. Providing a false certification to the government is punishable by imprisonment, fines and other penalties. All information herein is subject to verification by the Commodity Credit Corporation (CCC). The provision of criminal and civil fraud statutes that apply to this certification, includes 18 USC 286, 297, 371, 641, 651, 1001, and 1014; 15 USC 714m; and 31 USC 3729.						
8A. SIGNATURE OF MEMBER(S)	8B. MEMBER'S IDENTIFICATION NOS. (Complete only one entry)			8C. DATE	8D. SHARE	
DELETED GROWER SIGNATURE FOR CONFIDENTIALITY	Social Security No.	Individual Tax ID No.	Federal Tax ID No.	3-26-2001	33 1/2 %	
					33 1/2 %	
					33 1/2 %	
				8E. TOTAL (Must total 100%) →	100 %	
PART E - VERIFICATION AND APPROVAL						
9A. NAME OF CCC OFFICIAL	9B. APPLICATION STATUS (Check one below:)		10. DATE APPROVED			
	<input checked="" type="checkbox"/> Approved <input type="checkbox"/> Disapproved		5-4-01			

EXHIBIT F – FSA WRITTEN RESPONSE TO THE DRAFT REPORT



United States
Department of
Agriculture

JUL 18 2002

Farm and Foreign
Agricultural
Services

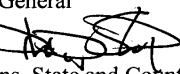
Farm Service
Agency

Operations Review
and Analysis Staff

Audits,
Investigations,
State and County
Review Branch

1400 Independence
Avenue, SW
Stop 0540
Washington, DC
20250-0540

TO: Director, Farm and Foreign Agriculture Division
Office of Inspector General

FROM: Philip Sharp, Chief 
Audits, Investigations, State and County Review Branch

SUBJECT: Response to Audit No. 03099-4-SF, Limited California Cooperative Insolvency
Payment Program – Tri Valley Growers

Enclosed is a copy of a memorandum dated July 18 from FSA's Acting Deputy Administrator for Farm Programs, which responds to your June 6 request for information regarding the subject audit.

Please direct any questions to Cindy Foister at 720-5463.

Enclosure

USDA is an Equal Opportunity Employer

We have reviewed Recommendation 6 and agree that the California State FSA Office needs to strengthen its second-party review process. In future FSA Price Support state administered programs, PSD will provide to the State office a checklist to assist with program reviews.

If you have any questions, please contact Toni Williams in PSD at (202) 720-2270.

Attachments

cc: DAFP:3612-S
PSD:4095-S
PSD:CPPB:4709-S
PSD:CPPB:TWilliams:4089A-S

FSA:PSD:CPPB:TWilliams:720-2270:rg:7-09-02:LP:PSD:281